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IN THE

Supreme Court of the United States

OCTOBER TERM, 1966

No. 179

ATLAS SCRAPER AND ENGINEERING CO., a Corporation,
Petitioner,

v.

HARRY A. PURSCHE, an Individual, *Respondent.*

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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INTRODUCTION

This case affords an opportunity for this Court to provide a guiding decision on grant-back assignment clauses in patent licenses, both as to the assignment of improvements to licensed patents, as provided in the first question, and as to grant-back clauses under which the licensee and sub-licensees are required to assign all future attachments, modifications and betterments, whether patentable or not, relating directly or indirectly to the device covered by the licensed patent.

Both types of grant-back clauses, as presented in the two questions, extend the monopoly in the patent or patents licensed. This Court has repeatedly set forth the principle that acts of a patentee which extend the monopoly of his patent beyond its scope or life are illegal so as to render the patent in question unenforceable. The present decision in this case is clearly in conflict with this principle.

THE GRANT-BACK CLAUSE CHALLENGED BY THE PETITIONER

The Respondent has treated the grant-back clause found in Paragraph IX of the Pursche-Atlas License Agreement, Exh. 19, (App., p. 119a)[1] as though it required the licensee to grant-back assignments of only future improvements to the licensed patents, that is, only improvements to the two-way plows patented by Pursche, and has treated the Petition as though only the first question had been presented. In so doing the Respondent has relied on *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637, 91 L. Ed. 563, 67 S. Ct. 610 (1947) which specifically held:

> "We only hold that the inclusion in the license of the condition requiring the licensee to assign improvement patents is not *per se* illegal and unenforceable." (329 U.S. at p. 648)

The Respondent has treated the *Transparent-Wrap* case as though it had decided that the inclusion in a license of a condition requiring the licensee to assign, in addition to improvements, any new inventions used

[1] All references to Appendix refer to the Appendix to the Petition for Writ of Certiorari previously filed by Petitioner.

or capable of use in connection with the invention licensed is not *per se* illegal and unenforceable. To support its position, Respondent (Brief for Respondent, pp. 5, 10, 11) has quoted from Article 11 of the License Agreement in that case. This Article is not pertinent to the decision of that case in that there is no indication in it of a requirement of the licensee to assign improvements back to the licensor. Article 11 is quoted in the opinion of the Court of Appeals for the Second Circuit at 156 F. 2d 198 at 199. On the same page, Judge Hand stated:

> "* * * Article XI is obscure, but we read the second sentence as meaning that the plaintiff promised to give the defendant an exclusive license in all territories not covered by the contract, under any patents upon improvements to the Zwoyer machine, so far as these should relate to making and closing the package. * * *"

In regard to Article 12 of the *"Transwrap"* License Agreement, which is also quoted at 156 F. 2d 199, and which this Court found to be the "relevant" article of the agreement, quoted in part at 329 U.S. 639, Judge Hand stated:

> "* * * In Article XII the plaintiff promised, if it should invent any improvements to the Zwoyer machine which were suitable for use in making and closing Zwoyer packages, that it would submit them to the defendant which was given an option to apply for patents upon them. * * *
>
> "The parties continued under the contract until January 22, 1944, when the defendant learned that the plaintiff had applied for four patents, to which in a letter written on that day it claimed the right, and of which it demanded an assignment under Article XII. * * *" (156 F. 2d at p. 200)

From the foregoing and from a study of the *Transparent-Wrap* decisions at 156 F. 2d 198 and 329 U.S. 637, it is manifest that Respondent has concerned himself with the wrong article in the *"Transwrap"* Agreement. Respondent's purpose in this was to try to place the grant-back clause in the present case on all fours with the *Transparent-Wrap* decision by this Court. That is, Respondent tried to make it appear that the *"Transwrap"* Agreement required the granting back of more than mere improvements to the licensed patents, to thereby come within Question 2 presented by the present Petition. However, as far as is known by Petitioner here, Question 2 has never been specifically answered by any Court. It should be answered by this Court now.

THE PRIOR DECISIONS ON GRANT-BACK CLAUSES HAVE ONLY CONSIDERED IMPROVEMENTS

An improvement of a patented device is an infringement of the patent disclosing the device which has been improved. The claims of the patent read upon the original device and likewise read upon the improved device which is essentially the same but which is improved. The definition of improvement is presented in the Petition on page 8, footnote 6. The Court of Appeals for the Fifth Circuit adopted this definition in *U.S. Industries, Inc.* v. *Camco Incorporated,* 277 F. 2d 292 (5 Cir., 1960) and observed:

> "* * * In the patent field it is certainly a comparative term and connotes some antecedent thing to be improved. * * *"

In *The International Nickel Company Inc.* v. *Ford Motor Company, et al.,* 166 F. Supp. 551 (S.D.N.Y., 1958), the Court considered the alleged misuse of a

license in which the licensees were to grant-back non-exclusive licenses, not assignments, in an improvement on any product or process covered by a patent included in the licensor's patent rights, the Court stating:

> "A fair reading of the agreements discloses that the licensees are required to license back only patents which could not be exploited without risking infringement of INCO's basic patent. * * *" (166 F. Supp. at p. 565)

For other cases construing agreements relating to improvements of patented devices see also *American Cone & Wafer Co.* v. *Consolidated Wafer Co.*, 247 Fed. 335 (2 Cir., 1917); *Fraser* v. *Kent*, 194 App. Div. 742, 185 N.Y.S. 746 (1921); *Allison Bros. Co.* v. *Allison*, 144 N.Y. 21, 38 N.E. 956 (1894); *Miller* v. *Modlin, et al.*, 296 Fed. 683 (5 Cir., 1924); and 48 *Corpus Juris*, p. 255.

In considering that part of the present grant-back clause referred to in Question 2, it is readily apparent that the *Transparent-Wrap* case, relating solely to the assignment of improvement patents, does not provide an answer to the latter question.

Respondent argues (Brief for Respondent, pp. 9-11) that the Chandler inventions are "improvements." Obviously, any invention is an improvement, but to be within the *Transparent-Wrap* case, the improvement must be of the device in the patent licensed. The Chandler patents are not improvements of the specific device in the Pursche patents.

Starting at the bottom of page 10 of his Brief, Respondent "points out that the Chandler patents are in fact 'improved patents'" (of what?) and further

that "whether the structures disclosed by the Chandler patents are infringements of the claims in the Pursche patents is immaterial." No authorities are cited in support of the latter statement. The law cited above, in regard to improvements, is manifestly contrary to Respondent's foregoing unsupported statements. More importantly, however, the illegality of the grant-back clause here does not depend upon what Chandler happened to invent but depends strictly upon the attempt by Pursche to extend the monopolies in his patents both in scope and life or term.

On page 10 of his Brief, Respondent quotes from page 9 of the Petition and states that this portion of the Petition is "incorrect." The first quoted sentence more correctly should have been originally written to read:

> The Court of Appeals in its first decision held invalid all the combination claims which depended upon a tail wheel for their patentability (App., pp. 54a-57a).

As stated at the bottom of page 10 of Respondent's Brief, it is true that claims 16 and 24 of Patent 2,625,090 include a tail wheel, but the patentability of the claims depend upon the "means on the frame for raising the frame and carrier relative to said pair of supporting wheels." The tail wheel is an incidental element in the claims. Claim 16 of Patent 2,625,091 does not include a tail wheel and there was no decision on this claim, either as to the validity or infringement (App., pp. 67a, 94a, 106a).

THE CONFLICT BETWEEN THE PRIOR DECISIONS OF THIS COURT AND THE DECISION IN THIS CASE

The decision in this case is based upon the Pursche-Atlas Agreement and specifically upon the illegal grant-back clause and it is, therefore, immaterial that the Agreement was canceled.

In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402 (1942), the misuse was the extension of the scope of the patent by the inclusion of a requirement that the licensees use only unpatented salt tablets sold by the licensor. Here, the scope of the Pursche patents was extended by the grant-back clause by the requirement of assignment back to Pursche of any developments by the licensee or sub-licensees of any improvements, or any attachments, modifications and betterments, relating directly or indirectly to the devices covered by the patents licensed, and whether they were patentable or not. It is very clear that the principles set forth in the *Morton Salt* case apply directly to the grant-back clause here.

The life or term of the Pursche patents is extended by the grant-back clause here by the requirements stated above under which future inventions, not contemplated by anyone at the time of the Pursche inventions, were assigned to Pursche so as to give him control of patents having life long after the expiration of his patents. This situation is clearly proscribed by *Brulotte et al.* v. *Thys Company,* 379 U.S. 29, 13 L. Ed. 2d 99, 85 S. Ct. 176 (1964), where this Court in its closing statement said:

> "* * * that after expiration of the last of the patents incorporated in the machines 'the grant of patent monopoly was spent' and that an attempt to project it into another term by continuation

of the licensing agreement is unenforceable." (379 U.S. at pp. 33, 34).

There is no question but that Pursche fully intended, with his grant-back clause, to attempt to project his parent monopoly into another or additional term or terms.

THE CANCELLATION OF THE PURSCHE-ATLAS LICENSE AGREEMENT WAS INEFFECTIVE TO ELIMINATE THE EXTENSION OF THE PURSCHE MONOPOLY, BOTH AS TO SCOPE AND TERM

The Trial Court found Atlas guilty of unfair competition on the ground that Atlas failed to comply with the grant-back clause in question. The Findings of Fact, Conclusions of Law and Judgment (App., pp. 88a-118a) do not make any reference to fraud on the part of Atlas, and it was only after the first appeal that the Trial Court required the assignment of the Chandler patents to Pursche. This requirement of assignment was in accordance with the illegal terms of the grant-back clause. Therefore, the cancellation of the Agreement is meaningless because the decision in this case was based upon it. For example, where a purge has taken place, a Court would not be expected to decide a case in favor of a party who was required to do the purging, and then base the decision upon the illegal situation that existed before the purge occurred.

IT IS IMMATERIAL WHETHER PURSCHE WAS EFFECTIVE TO RESTRAIN TRADE OR SUPPRESS COMPETITION

That the attempted misuse of a patent need not be successful or in violation of a law in order to render the patent unenforceable is clearly set forth in *Morton Salt Co.* v. *G. S. Suppiger Co., supra,* where this Court said:

"* * * The question we must decide is not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article.

* * *

"* * * But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.

"It is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest. * * *

"* * * Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. * * * Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated. * * *

"* * * It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintain the suit, *re-*

gardless of whether the particular defendant has suffered from the misuse of the patent. * * * The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy.

"It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged infringing machines is contrary to public policy and that the district court rightly dismissed the complaint for want of equity." (Emphasis added) (314 U.S. at pp. 490, 492-494)

Here, it is the decisions of the lower Courts which effectuate the misuse created by the present grant-back clause in the canceled License Agreement. These decisions clearly should not be allowed to stand.

THE MISUSE DEFENSE WAS TIMELY RAISED IN THE SECOND APPEAL

In this case, the evidence on which the misuse defense is premised was in the record from the beginning by virtue of the fact that the Respondent brought the suit on the License Agreement, specifically, Paragraph IX, Exh. 19 (App., p. 119a).

The misuse in this case was not particularly significant to the Petitioner until after the first appeal when the Trial Court on remand went beyond its original Judgment and the first Opinion of the Court of Appeals, and ordered the Petitioner to assign to Respondent its entire right, title and interest in the Chandler patents. (See pages 6 and 7 of the Petition.) It should be noted that Chandler, who has title to his patents, was not a party to the action. It was the

result of the foregoing action of the Trial Court that caused Petitioner to bring the second appeal. Petitioner had not been required by the original Judgment to assign its rights in the Chandler patents under the illegal grant-back clause of Paragraph IX, Exh. 19. This is good reason for bringing up the misuse defense specifically on the second appeal. Further, the decision in this case is still interlocutory.

The following cases illustrate that a misuse defense may be brought at any time when the public interest is involved and particularly where the evidence has been before the Trial Court.

The doctrine that a Court should *sua sponte* inquire into misuse to protect its own integrity is set forth in *Fram-Adam Electric Co.* v. *Westinghouse Electric & Mfg Co.*, 146 F. 2d 165, 167, 168 (8 Cir., 1945).

In *McCullough* v. *Kammerer*, 166 F. 2d 759 (9 Cir., 1948), *cert. denied*, 335 U.S. 813, 93 L. Ed. 368, 69 S. Ct. 30 (1948), the defense of unclean hands was raised (successfully) for the first time on appeal. Similarly, in *National Lockwasher Co.* v. *George K. Garrett Co., Inc.*, 137 F. 2d 255, (3 Cir., 1943) the misuse defense was first raised during the accounting which was five years after the first decision.

In *Holley* v. *Outboard Marine Corporation*, 241 F. Supp. 657, (N.D. Ill., 1964), aff'd, 345 F. 2d 351 (7 Cir., 1965) the defendant brought up the misuse defense two and one-half years after filing the answer and just before trial. With respect to this defense the District Court observed:

> "* * * As with any affirmative defense, however, once proof is accepted by the court, failure to have

pleaded it does not preclude its consideration." (241 F. Supp. at p. 649)

Further, the Court in *Holley* cited the *Frank Adam Electric Co.* case and stated:

> "* * * At trial, evidence as to the misuse defense was accepted over plaintiff's objection. I am constrained to agree with defendant that the evidence should be considered even in the absence of appropriate pleadings. * * *" (241 F. Supp. at p. 670)

In *Hall* v. *Wright,* 240 F. 2d 787 (9 Cir., 1957) the Court also cited the *Frank Adam Electric Co.* case, stating:

> "* * * In applying the clean hands maxim, the court is 'concerned primarily with protecting its own integrity from improper action by a party.' " (240 F. 2d at p. 795)

In *General Industries Co.* v. *Birmingham Sound Reproducers, Ltd.,* 194 F. Supp. 693 (E.D. N.Y., 1961), the Court stated:

> "* * * The principle has been repeatedly enunciated in patent infringement and other cases that the application of the 'unclean hands' doctrine to the admissibility of evidence does not depend upon the pleadings or the diligence of the parties but upon public interest and the integrity of the Court (Frank Adam case and cases cited therein). *It is unnecessary to decide whether 35 U.S.C.A. § 282 in any way changes the application of this maxim at the trial.* * * *" (Emphasis added) (194 F. Supp. at p. 695)

CONCLUSION

In view of the foregoing and the Petition, it is urged that this Court make a guiding decision on grant-back clauses in answer to Questions 1 and 2 here proposed.

For the reasons stated, the Petition should be granted.

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